For Release December 2, 2010:

The 21st Century Plan for America's Leadership
Submitted by Andy Stern

The Bowles-Simpson proposal has been a wake-up call, and a responsible effort to make America understand, as Chairman Bowles has said, that "…the era of debt denial is over". We all need to be cognizant of the real dangers to our families if we do not get America on a fiscally sustainable path.

Our country and our economy, joined by the rest of the world, are undergoing dramatic, unprecedented, and rapid transformation.

To succeed, Team USA must rise to this historic challenge, and create a new 21st century economic plan to ensure that the dreams of our children and grandchildren still come true.

The 21st Century Plan for America's Leadership is my contribution to this debate.

Fiscal responsibility is not a mere accounting exercise. Our country has to address another significant deficit in addition to its fiscal one—an investment deficit.

If we do not make short and long term fiscally responsible investments in national priorities (e.g. infrastructure, broadband, education) to create dynamic economic, wage, and job growth, then American workers will fall behind, and our businesses will be less competitive in this new global economy.

My plan addresses both- the fiscal and investment deficit; reduces the fiscal deficit by nearly $4 trillion (virtually identical to Simpson-Bowles); adopts the Sustainable Defense Task Force and the Coburn audit recommendations for defense; confronts the need to control costs for health care at GDP+1 per beneficiary, but also recognizes the need for the long term structural reform in health care; offers a responsible pathway to ensure Social Security solvency for 75 years without damaging the one stable source of retirement savings for a majority of Americans; and in addition to the Transportation Trust Fund, creates the **Invest in America Fund** that is fully paid for, and guarantees designated revenues for economic growth, and the enhancement of American competitiveness.

Finally, over the longer term, it is time for Washington leaders to stop being historians, and start becoming futurists by engaging in a mature future oriented conversation of how we can maximize America's long term economic growth and competitiveness.

1. How do we fundamentally overhaul our tax system so we simplify the code, lower rates, close loopholes, end or reduce tax earmarks/expenditures, and generate the revenue we need to keep the American Dream alive?

2. How do we end an employer based health care system that puts the cost of health care on the cost of our products, and expects American business to succeed against competitors in other nations who do not?

2010

A 21st Century Plan for America's Leadership

Submitted By Andy Stern

Andy Stern
Georgetown Public Policy Institute
12/1/2010

21st Century Plan for America's Leadership

Our Challenge

Fiscal responsibility is not a mere accounting exercise. There is a lot more at stake for our country and its citizens. In the 21st century, our country, joined by the rest of the world, is experiencing rapid and dramatic globalized, economic, technological, and demographic, change. To succeed as a nation, we require a new *21st Century Plan for American Leadership.*

Experts from all across the political spectrum have stated different degrees of agreement with Robert Greenstein's of the Center for Budget and Policy Priorities analysis that, "The United States faces a very serious deficit problem if current policies remain unchanged. The problem will ultimately threaten the economic health of our country and compromise the ability of the government to meet crucial national needs."

The Citizens' Commission pinpointed the fundamental driver of the deficits, "If we do not control our health care costs, the economy will be devastated."

But there are other important considerations. As Defense Secretary Gates explained, "Our national debt is our biggest national security threat."

This is a report about the future of the most basic values and beliefs of our country; freedom, democracy, liberty, security, prosperity, innovation, growth, and the American Dream. As citizens, parents, grandparents, uncles and aunts, immigrants and native born we must do everything in our power to make the dreams of our children and grandchildren still come true. The tough choices in the *21st Century Plan for American Leadership* build on the genius of the founders of our country, which now calls for this generation to offer 21st century choices to maintain America's enduring leadership as the nation that is the beacon of hope for the world.

HIGHLIGHTS OF STERN PROPOSAL

NEARLY $4 TRILLION OF DEFICIT REDUCTION

1. Reduces deficit by 3.8 trillion by 2020, comparable to Simpson-Bowles

Stern Proposal

Year(s)	**2015***	**2012-2020**
Discretionary Spending	163	1,464
Mandatory	58	533
Spending in the Tax Code / Tax Reform	100	951
Other Revenue	18	210
Net Interest Savings	33	673
Total Reduction	**372**	**3,831**
Invest in America	0	396.3
Invest in America Revenues	0	396.3

Discretionary Spending

1. Implements a modified version of Bowles-Simpson discretionary spending limits with a lower level of discretionary cuts, and uses Frank-Paul Sustainable Defense Task Force for defense spending. Those Sustainable Tax Force levels allow for a gradual shift in the balance of defense/non-defense back toward 2000 discretionary spending ratios of (48/52%), the last time the budget as balanced. --rather than current level of 54/46%. The 2010 ratio includes most post 9-11 homeland security increases in the non-defense discretionary budget.
Once these levels are established in 2012, funds cannot be shifted across the firewall until 2017. (The same principle would apply if the firewall was shifted to a security/non-security division.)

3. Implements Sen. Coburn audit requirements in 2015 so that future defense spending would be frozen at 2015 levels without a completed audit. (With audit future increases would continue along Frank-Paul path.)

4. Acknowledges that they are enough appropriate cuts in the combination of Bowles-Simpson, Rivlin-Domenici, CAP, EPI, and Schakowsky to meet the discretionary non-defense targets.

5. Adds a new separate, permanent Invest in America Trust Fund, (similar to the Transportation Trust Fund) outside of the discretionary spending budget levels, for long term investments (e.g. infrastructure, smart grid, education, broadband) to promote economic growth and increased US global competitiveness. It designates specific revenue sources for the fund. The Fund will allow business the certainty it needs to invest in longer term production and decision making that will drive economic growth, innovation, and job creation.

6. Adopts enforcement mechanisms of Simpson-Bowles with one slight modification.

7. Supports immediate investment to revive the economy and create jobs along the lines of the Rivlin-Domenici proposals payroll tax credit.

Health Care

1. Requires payment for any SGR-"Doc Fix" as described in Bowles-Simpson.

2. Encourages full implementation of reform with no additional health care cuts until 2018 other than the SGR "Doc Fix" noted above.

3. Holds health care cost increases in 2020 and beyond to GDP +1% per beneficiary, and outlines suggested changes in the current system, and possible system restructuring.

Reform of Tax Spending and Revenue Proposal

1. Adopts preferably Bowles-Simpson Option 1 (Zero Plan) or Option 2 (Wyden-Gregg style) proposal with an $80 billion dollar budget deficit contribution from personal income taxes.

2. Adds a new Option 3 to cap tax spending deductions at a maximum of 15%, taxes capital gains and dividends as ordinary income after a $1,000 exemption, and recommends other specific reforms to tax expenditures that generate $80 billion dollars of additional revenue for deficit reduction.

3. Adds a new Option 4 to end tax filing for 100 million Americans and increased competitiveness through Michael Graetz hybrid consumption-income tax plan.

4. Adds shared responsibility for corporations, as the Bowles-Simpson plan expects of small business, and individuals, by guaranteeing a minimum $20 billion dollar contribution to deficit reduction from corporate taxes. Reduces corporate tax rate to 26% while permanently extending the research credit, and also ensuring that shifting to a territorial system of taxation does not accelerate the exportation of American jobs. These corporate tax cuts are paid for through base-broadening reforms by making modifications to several business tax expenditures or a surcharge if necessary in the future. (Bowles-Simpson).

5. Gradually, increases the gas tax to fund the Transportation Trust, uses “chained” CPI in Federal programs, and treats dividends and capital gains as ordinary income (Bowles-Simpson).

Social Security

Although Social Security is included, it is for its own sake, and not for deficit reduction.

1. Increases taxable wage base gradually so that by 2030, 90% of employers and employees wages are included in the tax base, the percentage in 1983, and as described in Bowles-Simpson. Lifts the cap on taxable wages on employers only, in 2030.

2. Creates a new bend point for annual indexed earnings above $150,000 of 5%.

3. Includes newly hired public workers in 2020.

4. Allows for more flexibility in investments, up to 15% of Trust Fund.

5. Adopts chained cost of living formula for annual benefit adjustments as described in Bowles-Simpson.

6. Adopts increase in benefits for seniors and special minimums per Rivlin - Domenici.

7. Treats all salary reduction plans like 401(K's).

8. Requires consideration of flexible retirement age in any consideration of increasing retirement age.

A PLAN FOR DISCRETIONARY SPENDING

BOWLES-SIMPSON 2012-2020-Original Proposal (3)

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total	Percent
Defense	548	550	545	541	554	568	581	592	601	5,080	51%
Non-Defense Discretionary	546	533	527	520	530	538	549	560	574	4,877	49%
Total	1,094	1,083	1,072	1,061	1,084	1,106	1,130	1,152	1,175	9,957	

STERN 2012-2020

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total	%
Defense*	537	534	537	532(1)	536	542	545	567	586	4,916	49.4%
Non-Defense Discretionary-2	557	549	535	529	548	564	585	585	589	5,041	50.6
Total	1,094	1,083	1,072	1,061	1,084	1,106	1,130	1,152	1,175	9,957	

***Numbers from Sustainable Defense Task Force (Frank-Paul) (1) Freeze in 2015 if no audit and accounting changes as proposed by Senator Coburn (2) Discretionary includes most Homeland Security expenditures, and does not include Transportation Trust Fund spending. (3) These numbers were based on the first Simpson-Bowles, and the second proposal makes additional cuts which are not considered as appropriate in this plan**

A series of reports issued by Bowles-Simpson, Rivlin-Domenici, CAP, EPI-Demos, and Schakowsky, Sustainable Defense Task Force, Senator Coburn show the difficulty, but opportunity to achieve enough appropriate discretionary non-defense and defense targets.

Revive the Economy and Create Jobs

Implement short term efforts to revive the economy and create jobs using Rivlin-Domenici payroll tax or other mechanisms that more quickly help revive the economy.

A PLAN FOR ENFORCEMENT

- Enforce discretionary caps with (1) a 60 –vote point of order to enforce caps in Senate; (2) separate non-amendable vote on point of order to enforce cap in House; (3) sequester applied if caps are exceeded (Bowles-Simpson).

- Budget for disaster funds; tougher limits, transparency for emergencies (Bowles-Simpson).

- Convert the federal budget process to biennial (Bowles-Simpson).

- Cap the firewall separating defense and non-defense until 2017 (modified date Bowles-Simpson).

- Move Transportation Trust Fund spending in mandatory, limit transportation spending to existing revenue collection and prohibit general fund bailouts of transportation trust funds (Bowles-Simpson).

- Establish bipartisan Cut-and-Invest Committee to de-authorize outdated, low priority and inefficient programs and recommend high priority long-term investments (Bowles-Simpson).

- Tighter definition and rules for Overseas Contingency Operations funding (outside CAP) (Bowles-Simpson).

A PLAN FOR TAX REFORM AND TO REDUCE TAX SPENDING

This tax reform plan generates enough revenue to cut the deficit and invest in a 21st century high road economy that prioritizes economic recovery, investing in the development of new markets, developing new technologies, building new infrastructure, and strengthening our crucial social entitlement programs.

The plan has three specific objectives:

1. Generate $100 billion in revenue from reforms to the personal and corporate income tax codes to cut the deficit and fund new national priorities;
2. Enhance competitiveness of U.S. business by lowering the top marginal corporate tax rate and funding the rate reduction by broadening the tax base;
3. Add new sources of revenue to invest in America.

(Note: All plans have used chained CPI government-wide, including the tax code.) (Bowles-Simpson)

Personal Income Tax Options

Below are four different personal income tax reform options that each are designed to generate enough new revenue to help reduce the deficit by $80 billion annually between now and 2020.

Option 1- Bowles-Simpson's Zero Option with retention of the EITC and the Child Care Tax Credit. (Preferable to Option 2)

Bottom **Middle** **Top**

							Corp. Rate	
Current Rates for 2010	10%	15%	25%	28%	33%	35%		35%
Scheduled Rates for 2011	15%		28%	31%	36%	39.6%		35%
Eliminate all Tax Expenditures*	8%		14%		23%			26%
Keep Child Tax Credit + EITC*	9%		15%		24%			26%
Keep Child Tax Credit + EITC; Reform Mortgage, Health, and Retirement Benefits at 80% of Current Level and Switch to Territorial System*	12%		20%		27%			27%
Keep Child Tax Credit, EITC, and Current Mortgage, Health and Retirement Benefits and	13%		21%		28%			28%

Option 2: Wyden-Gregg style reform as outlined in Bowles-Simpson.

Option 3: Assume expiration of 2001/2003 tax rates above $250,000 in annual income. Reform targeted tax expenditures and other tax provision as follows to produce $80 billion in revenues for deficit reduction.

Reform	Revenue
Cap value of itemized deductions at a maximum of 15% (vary cap based on revenue).	Minimum of $40 billion (capping at 28% generates $30 billion)
Tax capital gains and dividends at ordinary tax rates	100
Extend and permanently index the 2009 AMT exemption thresholds	-66
Index tax thresholds using the chained CPI	15
Permanently extend the Making Work Pay Tax Credit	-4.2
Permanently extend enhancements to the Child Care tax credit, the EITC and the Dependent Care tax credit	-4.5

Option 4: Hybrid Consumption Tax and Eliminate 100 Million Tax Returns

Increase competitiveness, increase exports, and add costs to imports by replacing part of the income tax with a consumption tax with rebates for low income earners (see Michael Graetz proposal) http://www.nasi.org/usr_doc/Michael_Graetz_Background_VAT_Paper_09_19_06.pdf)

A PLAN FOR CORPORATE TAX REFORM

Corporate tax reform must generate at least a net of $20 billion of new revenue and, if necessary, a new effective tax rate, minimum tax or other fail safe measure needs to be established to insure new revenue. There must be an expectation that Corporations share in the responsibility of funding the budget as do small businesses, and individuals.

The plan reduces the top marginal corporate tax rate to 26% and permanently extends the research and experimentation tax credit (Bowles-Simpson). Moreover, it reforms the international corporate tax system by eliminating tax on active foreign-source income while retaining apportionment of global expenses. There is concern of tremendous leakage possibilities in revenue and jobs in a shift to Territorial taxation, and, therefore, a failsafe revenue mechanism needs to be developed, and a review and certification by the Treasury Dept. that the system designed does not accelerate job loss.

These corporate tax breaks are paid for by broadening the corporate tax base to net an additional $20 billion annually, and could include elimination of the following:

- Domestic production incentives
- Interest deductibility
- Allowance of LIFO method of accounting
- Energy tax preferences for the oil and gas industry
- Accelerated depreciation
- Additional options considered by Wyden-Gregg

Trust Fund Revenues

TRANSPORTATION TRUST FUND

Gradually Increase Gas Tax to Fund Transportation (Bowles-Simpson)

- Raise gas tax gradually by 15¢ beginning in 2013.
- Dedicate funds toward fully funding the transportation trust funds and therefore eliminating the need for further general fund bailouts.

Invest in America Trust Fund

Invest in America	**75**	**77.3**	**79.6**	**82.0**	**84.4**	**396.3**
Year	**2016**	**2017**	**2018**	**2019**	**2020**	**2016-2020**

Our country has not only a financial deficit, but a deficit of investment in the infrastructure needed for America to create jobs, and for business to compete in a global economy. This proposal builds an investment trust fund adding to the money, if any, generated by the Cut and Invest Committee (Bowles-Simpson) process. It is to be a permanent fund beginning in 2015, with an initial investment of $75 billion dollars, increasing by 3% annually. A range of long term investments (e.g. infrastructure, smart grid, education, and broadband) will be recommended each year by an outside panel of experts appointed by the President and Congress.

The following are ways to fund the Invest in America Trust Fund:

- Short-Term Financial Stock Transfer Fee -A modest stock transfer tax of approximately 0.25-.50 % percent on every purchase or sale of a share of stock held for less than one (1) year (capital gain term) to encourage long term investment, and a cost to short term supercomputer trading could produce $50+ billion dollars.

- Tax on Internet Gaming -This tax produces $4.2 billion a year.

- New Top Earner Tax Bracket -Add a new top tax rate for income in excess of $1 million dollars. ($50+ billion) that would function as a surcharge.

- Tax Gap-Money raised by increased enforcement mechanisms to close the tax gap.

A PLAN FOR HEALTH CARE

Reducing Health Care Costs

- **Medium Term:**
  - Fully offset the cost of the "Doc Fix" (Bowles-Simpson). Make no other health care cuts until 2018 to allow for full implementation of reform.
- **Long Term**:
  - Contain growth in total federal health spending to GDP+1% per beneficiary beginning in 2020. Establish a process to regularly evaluate cost growth, and take additional steps as needed if projected savings do not materialize (Bowles-Simpson).

The ability to meet these targets will require a major re-structuring of our health care system that will preferably tackle all of America's health care costs, not just the Federal government spending. It will require one or several of the following options:

- **Possible Future Changes**

Improve Current System

- Required implementation in Medicare, Medicaid, VA, Tricare, etc. of lessons learned from health care reform's experiments in the next several years on payment reform, prevention, chronic diseases, etc.
- Empower Med Pac or the IPAB to make cost containment recommendations subject to disapproval by Congress.
- Implement Public Option.
- Establish a Medicare Part D Modeled on VA.
- Pharmaceutical Negotiations.
- Increase Revenue or Means Test.

Restructuring Current System

- Restructuring to proven lower cost systems (e.g. Switzerland, Germany, and Taiwan) or other new designs that lower all health care costs public and private.
- Medicare for All with national budgeting.

A PLAN FOR SOCIAL SECURITY

We have an opportunity and a challenge to lay the groundwork for a stronger retirement system in this country that meets the needs of all workers and employers. Most Americans working today will enjoy less retirement security than their parents, a reversal linked to the decline in employer-provided pensions and exacerbated by the stock market collapse, which slashed the incomes of millions of retirees and forced many older workers to push back their retirement.

We know that Social Security is the most fair, durable and efficient social insurance and retirement system this country has ever created. But we also know that it is not enough to allow all Americans to retire with dignity and a decent standard of living. Social Security guarantees a secure lifetime benefit to nearly all retired Americans, but the average Social Security retiree benefit is below $14,000 a year, less than a minimum-wage income for a full-time worker. The median income of older households is less than $30,000, roughly half that of younger households. Moreover, the average earner retiring at the normal retirement age (which is slated to rise from 66 to 67), Social Security replaces only 41 percent of pre-retirement earnings — which compares unfavorably with most other western industrialized countries. When it comes to Social Security, we must focus on both the adequacy of its benefits and the program's long-term solvency.

Whatever is done to restore full solvency to Social Security, will not provide adequate retirement security for most Americans. Using a 70% income replacement as a guide, Americans face a $6 trillion deficit in retirement income.

This proposal includes steps that, in the aggregate, would strengthen retirement security for all Americans by:

1. Strengthening the adequacy of Social Security benefits for the most vulnerable.
2. Making Social Security solvent over the long-term.
3. Establishing a framework for a new universal retirement vehicle, in addition to Social Security, in which all Americans can participate.
4. Not using any Social Security changes for deficit reduction.

Specific Reforms:

- **Return Wage Base to 1983 Levels**
    - Gradually raise the taxable maximum amount of wages subject to employer and employee payroll taxes (currently $106,800) over the next 20 years to reach the 1983 target of covering 90% of wages (modified Bowles-Simpson).
    - Eliminate the taxable amount of wages subject to employer (only) taxes in 2030.

- **Modify Bend Point to Make Benefits More Progressive**
    - Reduce credit towards benefits for average indexed earnings above $150,000 to 5% once the taxable wage cap has reached the $150,000 threshold for employees.
    -

- **Increase Universality**
    - Cover newly hired state and local government workers under the Social Security system, beginning in 2020. This will increase the universal nature of the program (Bowles-Simpson).

- **Chained Cost of Living (Per Simpson-Bowles)**

- **Longevity Insurance (Per Rivlin-Dominici)**
    - Provide the same dollar amount increase to the benefit level of any beneficiary who is 85 or older at the beginning of 2012 or who reaches their 85th birthday after the beginning of 2012. The dollar amount of increase equals 5 percent of the average retired worker benefit in the prior year. Phase in at 1% per year from 81 to 85.

- **Updating the Special Minimum Benefit (Per Rivlin-Dominici)**
    - Reconfigure the special minimum benefits to ensure that someone earning at least 20% of the old law tax max in each of 30 years would receive a PIA of 133 percent of the federal poverty level, with the formula phased up to 133 percent of poverty linearly for workers over 19 creditable years. Up to 8 years of care-giving could be used as creditable years for care of a child under the age of 6, if it is not otherwise counted as a creditable year (earnings < 20% old law tax max). Scale requirements for DIBs including child care credit years. Effective for new eligible's in 2012. Wage-index the poverty level from 2009 up to 2 years prior to benefit eligibility.

- **Treat All Salary Reduction Plans Like 401(K's)**
  - Contributions to salary reduction plans should be treated as ordinary income, subject to Social Security taxes, as are 401 (K) contributions.

- **Increase Trust Fund Flexibility**
  - Invest up to 15% of the trust fund in safer, long term alternative investments similar to Canada and defined benefit pensions (index funds, bonds, etc.) with higher returns. Note that funds would be invested once Social Security returned to positive cash balance, which will depend on timing and impact of revenue increases and benefit reductions outlined above.

- **Create Flexible Retirement Age**
  - While this proposal does not support an increase in retirement age; if one is recommended, Social Security should implement: 1) a flexible retirement age plan that allows workers with a higher probability of having lower life expectancy (as indicated by lower life expectancy-career average earnings) to retire earlier with full benefits 2) Allow workers with long careers in physically demanding jobs and who are in poor health, but do not meet the criteria for disabled worker benefits an opportunity to retire earlier with full benefits (available on request).

- **Overall Retirement Security in <u>Addition to</u> Social Security**
  - Establish mandatory employer-employee contributions to be deposited in personal supplemental accounts with progressive matches for low and moderate-income workers (Galston-MacGuineas Plan which uses 2% employer-employee mandatory contributions).

    (Structure also proposed by Concord Coalition, The" Roadmap Plan " by Paul Ryan, Sen. Sessions PLUS Accounts, Retirement USA, Teresa Ghilarducci GRA's.)